

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-03 H-01 INR-05 L-01

NSAE-00 NSC-05 PA-01 RSC-01 PRS-01 SP-02 SS-15

USIA-06 AID-05 COME-00 EB-04 FRB-01 TRSE-00 XMB-02

OPIC-03 CIEP-01 LAB-01 SIL-01 OMB-01 /073 W

----- 078293

R 011943Z NOV 74

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 5326

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY THE HAGUE

AMEMBASSY LUXEMBOURG

AMEMBASSY OSLO

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

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USMISSION NATO BRUSSELS

USMISSION OECD PARIS

AMCONSUL BELFAST

AMCONSUL EDINBURGH

AMCONSUL LIVERPOOL

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E.O. 11652: N/A

TAGS: PINT, ELAB, UK

SUBJECT: GOVERNMENT EXPECTED TO TOUGHEN ITS APPROACH TO
WAGE RISES

REF: (A) LONDON 14242, (B) LONDON 13637, (C) LONDON

12414

BEGIN SUMMARY. THERE ARE INCREASING SIGNS THAT THE
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GOVERNMENT IS DEEPLY DISTURBED OVER THE UPWARD WAGE

MOVEMENT, WHOSE FURTHER RISE IS BEING ENCOURAGED BY BREACHES OR AT LEAST BROAD INTERPRETATIONS OF THE SOCIAL CONTRACT. CHANCELLOR OF THE EXCHEQUER DENIS HEALEY IS LIKELY TO EXPRESS THE GOVERNMENT'S SERIOUS CONCERNS WHEN HE MEETS TUC LEADERS ON MONDAY (NOVEMBER 4) AND MICHAEL FOOT, SECRETARY OF STATE FOR EMPLOYMENT, IS EXPECTED TO "TALK TOUGH" TO THE UNIONS ABOUT THE SANCTITY OF THE SOCIAL CONTRACT IN A SPEECH BEFORE PARLIAMENT ON TUESDAY. THE TUC IS CURRENTLY DISCUSSING WAYS TO TIGHTEN ITS WAGE GUIDELINES BUT IT ALSO WILL ASK HEALEY FOR "SWEETENERS," AMONG WHICH IS A REFLATIONARY BUDGET THAT INCLUDES A 3-1/2 PERCENT GROWTH RATE. END SUMMARY.

1. GOVERNMENT OFFICIALS, INCLUDING FOOT, HAVE WATCHED WITH GREAT CONCERN THE WAVE OF STRIKES WHICH HIT SCOTLAND AND ARE STILL CONTINUING (REF A) AND ARE LOOKING WITH AN ESPECIALLY JAUNDICED EYE AT ONE SCOTTISH SETTLEMENT--AFFECTING LORRY DRIVERS BELONGING TO JACK JONES' TRANSPORT AND GENERAL WORKERS--WHO AGREED TO RETURN TO WORK AFTER AN ESTIMATED 40 TO 50 PERCENT INCREASE IN THEIR WAGE PACKET. ACCORDING TO A SOURCE CLOSE TO FOOT, IN THE DEPARTMENT OF EMPLOYMENT (DE), WITH WHOM WE TALKED, WHAT WORRIES GOVERNMENT IS THAT ONLY A SHORT WHILE BEFORE JACK JONES, ONE OF THE FOUNDING FATHERS OF THE SOCIAL CONTRACT HAD DELIVERED A MAJOR ADDRESS IN SCOTLAND CALLING ON WORKERS TO MODERATE THEIR WAGE CLAIMS (REF B).

2. OUR DE SOURCE ACKNOWLEDGED THAT THE SCOTTISH LABOR RELATIONS SITUATION HAS BEEN NORMALLY CONSIDERED SECONDARY TO THE LARGE PACE--SETTING AGREEMENTS IN INDUSTRY WHICH INVOLVED MANY MANY THOUSANDS OF WORKERS. BUT THE GOVERNMENT IS VERY MUCH CONCERNED ABOUT THE BASIC SPILLOVER EFFECT OF THE SCOTTISH RESULTS TO OTHER AREAS OF THE COUNTRY, AND THEIR REAL FEARS THAT WHAT HAS HAPPENED THERE IS SYMPTOMATIC OF A REAL EROSION OF THE SOCIAL CONTRACT. THE REJECTION YESTERDAY OF THE NATIONAL COAL BOARD PRODUCTIVITY PROPOSAL BY THE NUM EXECUTIVE (REF C) HAS DONE NOTHING, HE ADDED, TO PROVIDE ANY COMFORT TO THE GOVERNMENT.

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3. IN ORDER TO HELP SHORE UP THE CONTRACT, OUR SOURCE SAID, MICHAEL FOOT WILL BE MAKING A "HARD" SPEECH ON THE SUBJECT IN PARLIAMENT NEXT TUESDAY. FOOT, HE SAID, WILL UNDOUBTEDLY REFER TO THE SCOTTISH SITUATION AND, IF HIS AIDES HAVE THEIR WAY, WILL BE AS TOUGH AS POSSIBLE. (THIS SHOULD BE AN INTERESTING PERFORMANCE IN VIEW OF FOOT'S REPUTATION AS A LABOR LEFT-WINGER.) MOREOVER, HE

ADDED, THE GOVERNMENT IS AWARE OF A TUC PLAN TO TOUGHEN UP THEIR OWN GUIDELINES ON THE SOCIAL CONTRACT--AN ACTION WHOSE URGENCY, HE IMPLIED, WAS IMPRESSED UPON THEM BY GOVERNMENT MINISTERS.

4. FOR ITS PART, THE TUC ECONOMIC COMMITTEE IS MEETING THIS AFTERNOON TO PREPARE FOR ITS MEETING ON MONDAY MORNING (NOVEMBER 4) WITH CHANCELLOR OF THE EXCHEQUER DENIS HEALEY. IT IS EXPECTED TO AGREE ON A NUMBER OF POINTS DESIGNED TO TIGHTEN ITS WAGE GUIDELINES TO ITS AFFILIATES, BUT ON THE OTHER HAND, IT WILL ALSO RECOMMEND SEVERAL MAJOR POLICIES TO THE GOVERNMENT--ONE OF THE MOST IMPORTANT OF WHICH CALLS FOR A 3-L/2 PERCENT GROWTH RATE.

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WHILE THE GOVERNMENT WILL OF COURSE STRONGLY WELCOME THESE TUC EFFORTS TO REINFORCE ITS SIDE OF THE SOCIAL CONTRACT, IT IS VERY UNLIKELY TO WELCOME ITS PROPOSAL TO REFLATE--AT THAT RATE. QUITE THE CONTRARY, IT WOULD APPEAR THAT, APART FROM THE OBVIOUS DIFFICULTY OF GETTING POLICY MEASURES RIGHT TO THE POINT OF HITTING SUCH AN

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ELUSIVE TARGET AS A SPECIFIC RATE OF GROWTH, EVEN 3-1/2 PERCENT GROWTH WOULD EXACERBATE THE INFLATION PROBLEM AND ENDANGER THE BALANCE OF PAYMENTS AND EXCHANGE RATE STABILITY.

5. MOREOVER, INCREASED INCOME IS CERTAIN TO SIPHON EXPORTS OFF TO THE HOME MARKET AND DRAW IN IMPORTS. IN THE PRESENT ANOMALOUS SITUATION SOME ELEMENTS OF DEMAND ARE WEAKENING (CONSUMPTION AND INVESTMENT), WHILE EXPORTS AND THE PUBLIC SECTOR ARE STILL EXPANSIONARY IN THEIR IMPACT. MANY BASIC INDUSTRIES ARE WORKING AT CAPACITY AND SKILLED LABOR IS SHORT IN SOME INDUSTRIES. TO ATTEMPT TO STIMULATE THE ECONOMY TO INCREASE THE GROWTH RATE TO 3-1/2 PERCENT WOULD APPEAR HAZARDOUS TO US, AND MAY TO THE GOVERNMENT ALSO.

6. BUT EVEN IF THE SOCIAL CONTRACT WERE TO HOLD--WHICH IS BECOMING INCREASINGLY DOUBTFUL AS TIME GOES ON--EVEN THE NORMAL MOVEMENT OF WAGES IS NOW EXPECTED TO RUN ABOUT 25 PERCENT FOR THE YEAR BY SPRINGTIME. THIS IN ITSELF PRESENTS AN EXCEEDINGLY GLOOMY PICTURE. (SIR ARTHUR COCKFIELD, CHAIRMAN OF THE PRICE COMMISSION, HAS JUST ISSUED A STRONG WARNING THAT LABOR COSTS COULD COMPLETELY UNDERMINE THE EFFECT OF ANY FALL IN COMMODITY PRICES. HE ESTIMATES THAT IF LABOR COSTS ROSE BY 20 PERCENT, IT COULD "DRAG" UP OTHER COSTS. AT THIS RATE A 20 PERCENT LABOR COST INCREASE COULD RESULT IN A 20 PERCENT PRICE INCREASE.)

7. IT IS CLEAR THAT AS THE ELECTION EUPHORIA BECOMES JUST A MEMORY, THE LABOR GOVERNMENT WILL HAVE TO CONTEMPLATE SOME HARD NEW MEASURES TO BATTLE THE COUNTRY'S PUBLIC ENEMY NO. 1--INFLATION.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: LABOR STRIKES, GOVERNMENT REACTIONS, WAGE CONTROLS, LABOR UNIONS
Control Number: n/a
Copy: SINGLE
Draft Date: 01 NOV 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: golinofr
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974LONDON14303
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D740313-0698
From: LONDON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19741179/aaaacplg.tel
Line Count: 225
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: (A) LONDON 14242, (B) LONDON 13637,, (C) LONDON
Review Action: RELEASED, APPROVED
Review Authority: golinofr
Review Comment: n/a
Review Content Flags:
Review Date: 03 APR 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <03 APR 2002 by martinml>; APPROVED <07-Aug-2002 by golinofr>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: GOVERNMENT EXPECTED TO TOUGHEN ITS APPROACH TO WAGE RISES
TAGS: PINT, ELAB, UK
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005